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SENATORS CAUTIONED ON TAIWAN BY DENG

Peking Leader Asserts Legislation
in Support of the Nationalists
Hurts Ties With the U.S.

BY FOX BUTTERFIELD*Special to The New York Times*

PEKING, April 19 — Deputy Prime Minister Deng Xiaoping warned a delegation from the Senate Foreign Relations Committee today that Congressional legislation on Taiwan had impaired the United States' relations with China.

In blunt language, the Chinese leader told the Senators, whose committee had sponsored the bill, that it had come close to nullifying the normalization of relations reached last December. He said his Government would carefully watch American actions on Taiwan.

The legislation, signed by President Carter last week, affirmed continued interest in the peaceful resolution of the Taiwan issue and provided for future arms sales to the Chinese Nationalist Government in Taiwan.

Ambassador Leonard Woodcock, commenting on Mr. Deng's remarks, said he saw no evidence that Peking's dissatisfaction had interfered with talks now being held on several issues, including financial claims, limits on Chinese textile imports and a trade pact.

Delay in Claims Agreement

Mr. Deng, who met with the Senators for two and a half hours, seemed surprised when asked by Paul S. Sarbanes, Democrat of Maryland, what had held up the final signing of a claims accord, which had been initialed here by Treasury Secretary W. Michael Blumenthal on March 2. The Chinese leader appeared to believe that the agreement had been completed, the Senators said.

American diplomats say the Chinese have raised legal questions about recovering their share of frozen assets in the United States after they pay \$80.5 million for the \$196 million in American property seized in China. They are said to fear that they may get the short end of the deal.

The Chinese have asked for a list of the banks in which the assets are held and the names of the original Chinese owners. In the end, the Chinese may be able to recover only \$30 million of the \$80 million in frozen assets, the diplomats say.

But the diplomats believe that China recognizes that it must settle the claims issue before the United States will end its discriminatory import tariffs on Chinese goods or make available low-interest government trade credits from the United States Export-Import Bank.

Senators Are on Six-Day Tour

The group of five Senators, led by Frank Church, Democrat of Idaho, the committee chairman, is on a six-day tour of China. Senator Jacob K. Javits of New York, the ranking Republican member of the committee; Edward Zorinsky of Nebraska and Joseph R. Biden Jr. of Delaware, both Democrats, are also in the group.

Mr. Deng appeared to have saved his comments about Taiwan for the Senators, since he had met with two other Congressional groups in the last two days without mentioning the subject.

The Chinese leader said the United States should not be so concerned about a Chinese attack on Taiwan, for, he said, over the next five years Peking did not have the military capacity for an assault on the island, 100 miles across Formosa Strait from the Chinese mainland.

Moreover, Mr. Deng added, China would consider using force only in two circumstances: first, if Taiwan persisted in refusing to enter into discussions with Peking, and, second, if the Soviet Union became involved in Taiwan.

Deng Says Taiwan Is Stubborn

He implied that Peking had hoped normalization with the United States would help lead the way to a peaceful resolution of the Taiwan problem by encouraging the Nationalists to open talks with the Communists. He said the American legislation, pledging continued arms sales and concern over Taiwan's fate had made the Nationalists more stubborn.

Mr. Deng repeated hints by other officials that Peking would be interested in buying weapons if President Carter relaxed his ban on arms sales to China.

In response to a question by Senator Biden whether Peking would allow the United States to station intelligence monitoring equipment in China, Mr. Deng said the Chinese must maintain their sovereignty. However, he added, if the United States would supply the monitoring facilities, China would share the resulting intelligence with it.

On the Middle East, Mr. Deng said China had not come out publicly in favor of the Egyptian-Israeli peace treaty because it did not want to offend the Arabs and it believed the treaty was only a first step toward a final settlement.

Virtual Invasion by Americans

The Senators are only a small part of a virtual invasion of American legislators and businessmen in Peking in recent weeks. This week alone, four Congressional groups passed through here, along with the board of directors of Pan American World Airways; the chairman of Coca-Cola, J. Paul Austin; a delegation of book publishers and the American national basketball team.

The Senators brought along with them a group of businessmen from their home states, including representatives from International Business Machines Corporation, the Du Pont Company, the Marine Midland Bank and Boise Cascade Corporation. Fang Yi, the Deputy Prime Minister for science and technology, told the businessmen today that, while Peking was scaling down its modernization program, it still intended to import large amounts of foreign technology.

Next month Juanita M. Kreps, the Secretary of Commerce, is scheduled to make a visit to discuss the trade pact. In June, Joseph A. Califano Jr., Secretary of Health, Education and Welfare, will arrive, and President Carter is likely to make a trip to China after an economic conference in Tokyo later that month.